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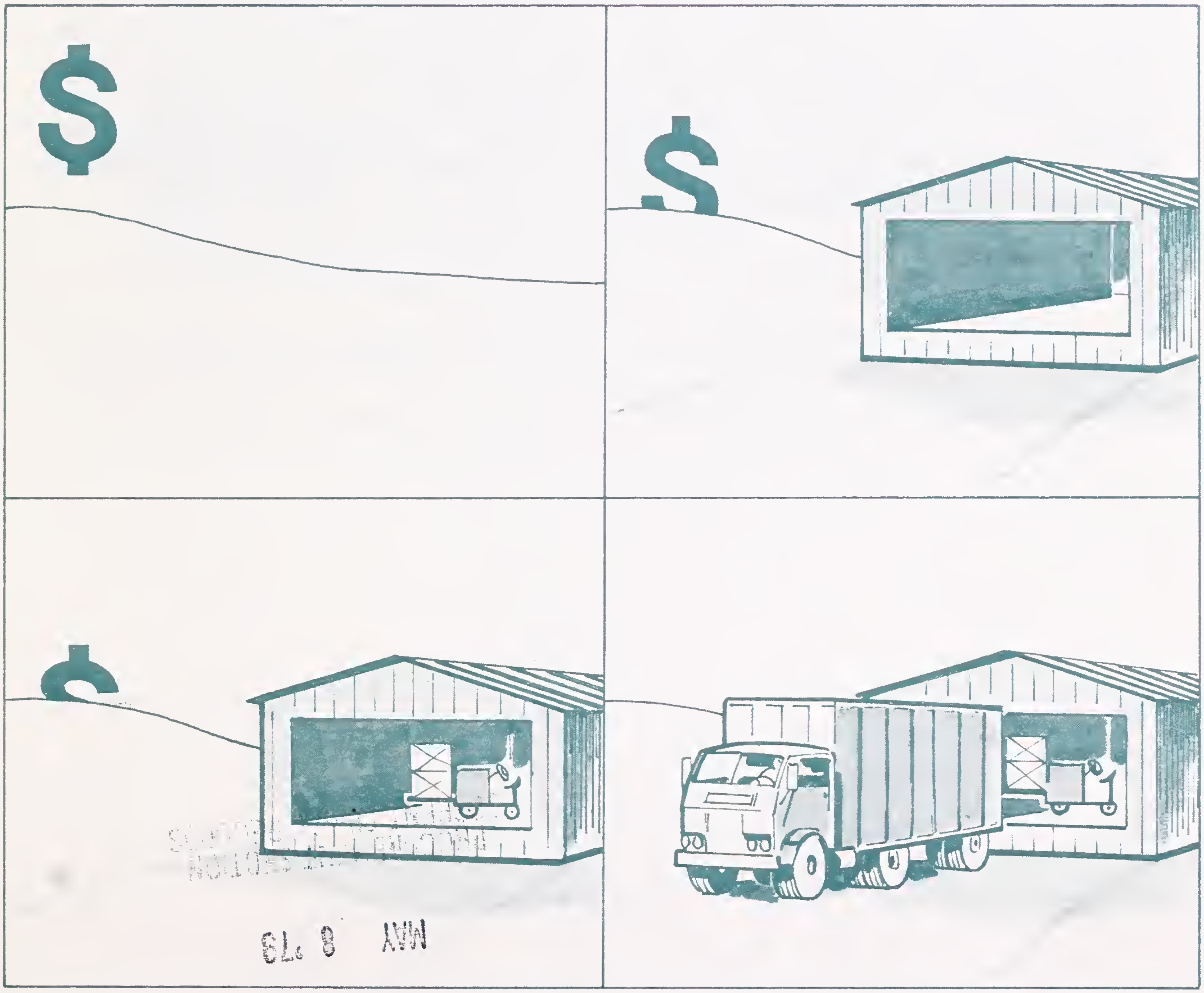
FINANCING NEW COOPERATIVES



UNITED STATES
DEPARTMENT OF
AGRICULTURE

ECONOMICS,
STATISTICS, AND
COOPERATIVES SERVICE

PROGRAM AID
NO. 1229

Preface

The organization and development of new cooperatives demand substantial amounts of capital. In nearly all instances, the required capital exceeds the initial equity capital that members are able to generate. Consequently, new cooperatives are forced to secure additional capital from outside sources.

The major purpose of this publication is to present basic information needed by persons seeking to organize and obtain financing for new cooperatives as well as by lending institutions assisting them. The publication also outlines the preparation of key documents, their significance in obtaining financing, and the sources of credit.

Farmer-owned corporations whose bylaws reflect benefits on a use basis (cooperatives) may also find the publication useful since their needs are essentially the same. Educational Circular 18, 'How to Start a Cooperative,' should be helpful prerequisite reading.

The authors wish to acknowledge the assistance given by a number of people in reviewing the manuscript and making suggestions based on their experience in cooperative organization and development work. They are Randall Torgerson, Deputy Administrator for Cooperatives, and Homer Preston, Director, Cooperative Development Division, Economics, Statistics, and Cooperatives Service; Roy R. Fellows, Assistant Vice President, Wells Fargo Bank, Salinas, Calif.; James Waters, Chief, Business and Industry Loans, Farmers Home Administration, Newark, Del.; Fulton Jeffers, Attorney, Salisbury, Md.; Ronald H. Erickson, Assistant Director, Public Affairs Division, Farm Credit Administration, Washington, D.C.; and Steven C. Huffstutlar, former Finance Manager for Cooperativa Central, Salinas, Calif.

CONTENTS

April 1979

FINANCING NEW COOPERATIVES

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Cooperatives make important contributions to the economic welfare of their communities, meeting a wide variety of economic and social needs. Traditionally, farmers have made the most notable use of cooperatives, but recently nonfarm cooperative enterprises have come to play important roles in housing, health, fishing, insurance, consumer goods, and communications.

Cooperatives continue the early American tradition of neighbors working together to help themselves and each other. Historically, the unique feature of the cooperative idea has been to forge a mutually beneficial and collective impact out of limited resources of individuals. Effective cooperative development usually evolves from a compelling need. Even the largest cooperatives today, in most cases, began under the stress conditions of charter members banding together to survive or make progress.

In many areas of the country today new cooperatives can be developed to provide efficient marketing of members' products or the purchasing of services and supplies.

Although the major purpose of this publication is to outline basic information needed to obtain financing, the cooperative's leaders and potential members must be aware of other important factors. Therefore, prior to discussing its financing, the unusual aspects of a cooperative should be understood.

The Cooperative As A Business Enterprise

A cooperative is a group of individuals acting together and pooling their resources for mutual benefit. By forming a cooperative, members and patrons are able to obtain services which they could not receive economically as individuals.

Ownership and control of a cooperative are vested in the member. In a cooperative organized with capital stock, membership is evidenced by ownership of one or more shares of voting (or 'common') stock. Some State laws limit the amount of common stock held by individuals to a percentage of the total amount issued.

In most States, no member can have more than one vote in the affairs of the cooperative, no matter how many shares of common stock he owns, though in other States voting power depends either on the amount of business a member does with the cooperative or on some other factor. Most cooperatives use the one-member, one-vote voting method.

The long-run success of the new cooperative is also affected by the organizational structure of the association and its internal operations. Each of the various components—the members, directors, managers, and employees—have a distinct role to play. We will outline some of the basic functions of each component, beginning with the members.

Membership

Because a cooperative's existence depends on members, the very nature of its success is primarily a reflection of its membership. Membership requirements are determined by the members of the cooperative and documented in the bylaws of the association. The bylaws may, for example, specify that members must be producers of agricultural products if they belong to a marketing cooperative or be fishermen if the organization is to handle seafood. Members must be willing to purchase shares of common stock in the association or pay a membership fee.

In some instances, the cooperative may require members to execute a marketing agreement and market all or a specified portion of their products through the association. Such requirements are normally spelled out in the bylaws. Other responsibilities that members have are: selecting a competent board of directors, amending the bylaws, attending meetings to express their views, and voting on issues.

Farmers join cooperatives to obtain services which would be difficult to gain if they acted individually. Members can use cooperatives to process, store, and market their products and/or to purchase supplies and services. A marketing cooperative is designed to return to members the highest possible price for their products. A supply cooperative should be able to provide members with production inputs at very competitive prices because it operates at cost.

Board of Directors

The board of directors is the top decision mechanism within the cooperative. Elected from the general membership of the cooperative, board members fulfill duties and responsibilities as outlined in the bylaws. Some of their more important functions are:

- Serving as trustees of the cooperative
- Establishing the cooperative's goals and policies
- Employing a competent manager
- Evaluating financial reports
- Distributing patron refunds

In most agricultural cooperatives, the board of directors meets several times during the year. Their decisions are extremely important to the welfare of the cooperative and, therefore, the meetings should always be productive. Several factors which should be taken into consideration when planning for meetings are:

1. Giving each director adequate notice.

2. Developing an agenda and distributing it to members prior to meetings.

3. Utilizing meeting time for cooperative business.

4. Beginning at the scheduled time.

5. Keeping accurate records of all proceedings.

6. Requiring that all financial reports from the manager be written.

Although every member of the cooperative is eligible for board membership, care should be taken in selecting directors and deciding upon the length of the terms in office. Some of the more important characteristics board members should exhibit are:

1. They should believe strongly in the cooperative form of business.

2. They should work well with others.

3. They should patronize the cooperative at every opportunity.

4. They should be innovative and not resistant to change.

5. They should possess strong leadership qualities.

6. They should be accepted in the community as persons of good judgment and should not have a conflict of interest in the business of the cooperative.

7. They should understand various financial statements.

The ultimate base of power in a cooperative is held by the board of directors as an entity and not by an individual board member or the manager.

Management

For the cooperative to succeed, a good relationship must exist between the board of directors and the manager. A sound relationship between these components depends on clearly understanding the duties and responsibilities of each.

The manager of a cooperative directs the day-to-day operations of the cooperative business. Because he is responsible for the efficiency and productivity of its employees, the manager must demonstrate leadership and be able to give guidance to employees. It is his duty to motivate people. This can best be accomplished by example and by developing a two-way flow of communication. Most of all, the manager must have a sound business background and a fundamental understanding of the cooperative form of business. Aside from guiding the daily operations of the cooperative, the manager should provide the board of directors with information that will assist them in making decisions. The importance of his duties cannot be overstated, for in many ways, he is responsible for the success or failure of the cooperative business venture.

Later in the publication, we will discuss the presentation of a loan application to the lender. Probably the first question the lender will ask: Who is the manager? What is his background? What is his salary? It is the responsibility of the board of directors to recruit and hire the most competent manager. It is also their responsibility to pay competitive salaries. There are many alternative salary programs. Although most managers are paid a basic salary, some are paid a bonus, or other compensation in addition, based on net margins generated.

Employees

The foundation of any business is its employees. Particular care must be taken in selecting a cooperative staff because of its unique twofold responsibility, to work both with the general public and with the members. Therefore, the staff must promote a good internal as well as external image.

Personnel policy is set by the board of directors and implemented by the cooperative's manager. Employees should fully understand what is expected of them at all times. This is best accomplished if the manager develops weekly work schedules for all employees, including himself.

If each component recognizes its duties and responsibilities and effectively carries them out, the cooperative is more likely to succeed.

Organizing The New Cooperative

We have discussed basic cooperative principles and the responsibilities of members, board of directors, management, and employees. This section will cover the actual organization of a cooperative, the functions of the survey committee and the organization committee.

Persons interested in organizing a cooperative should meet with other producers to determine their interest and the economic need for a cooperative. Small, selective group meetings in the areas that the cooperative is expected to serve will assure that the most effective leaders are involved. Cooperative principles, the purpose, and the nature of the proposed cooperative should be thoroughly explained, together with the procedure to create the cooperative.

Survey Committee

Discussions should be encouraged and producers should be asked to express their ideas concerning the need for a new cooperative. If there is substantial agreement by producers that a need exists, then a survey committee should be organized to study the prospects for beginning and operating the new coöperative.

Determining Feasibility of New Cooperative

The first task of the survey committee is to determine how the cooperative will benefit members and if it is likely to succeed.

To determine if the new cooperative is needed, the survey committee should explore what services the cooperative might provide and estimate the costs of such services. If it can improve existing services or provide members with these services at a reduced cost, the next step is to estimate the demand. The current and longrun state of the particular industry, delivery dates, and projected volume must be studied. Prospective markets for products or supplies must be located and the prices members should expect to receive or pay determined.

Since the cooperative is designed to yield monetary or other benefits to its members, a benefit-cost analysis of the venture is in order. If this projects an economic benefit, the next step should be to survey prospective members. Traditionally, the need for a cooperative has been expressed as a means to provide: (1) improved or new services, including market access as a service; (2) an existing service at lower cost; or (3) market power.

Identifying Needs and Economic Potential Of the Cooperative

To ascertain if the new venture will be successful, the survey committee should conduct a survey of a substantial number of prospective members.

This task can best be accomplished through a questionnaire. An example is included in this publication. Although it is designed for poultry producers, a few changes would make it adaptable to any new cooperative enterprise. The purpose of the survey questionnaire is to determine the number of potential members, their location, the volume of production or services they need, and their willingness to invest capital in the cooperative.

Persons conducting the survey should attend a workshop to familiarize themselves with interviewing techniques. It is extremely important that members of the survey committee obtain all of the information asked in the questionnaire because the answers will provide the basis for determining if conditions are satisfactory for organizing a cooperative. Guesswork in this phase can lead to false conclusions later on.

In every cooperative, a minimum volume is needed for the business to be economically efficient. By estimating potential membership and the amount of business each producer or individual will do with the cooperative, the survey committee can better determine the feasibility of the proposed venture. The survey approach by questionnaire insures that each producer surveyed provides comparable data. This approach also emphasizes the potential commitment each member must be willing to make and is an excellent educational device.

Once it has been determined that the new cooperative is needed and that there is sufficient support from potential members, the survey committee should call a special meeting of area producers. At this meeting, the committee should report its findings and take a vote to draft formal plans.

In most instances, the members of the survey committee will continue to function as an organization committee.

Organization Committee

The organization committee will determine the capital needs of the cooperative by answering the following questions:

1. What will be the land requirements?

2. What plant and facilities are needed?

3. What will be the equipment needs?

4. What will be the required operating capital?

5. Where should the cooperative be located?

This committee should compare the cost of constructing new facilities with that of buying or leasing an existing facility and used equipment.

Legal And Accounting Services

If the organizing committee concludes that the proposed cooperative will benefit its members and will be economically sound, an attorney should be hired to assist them in the incorporation process. The attorney must know cooperative laws to make certain that the articles of incorporation (charter) are sufficiently broad to cover the purpose of the cooperative. He should carefully review State and Federal cooperative law to assure that the cooperative is properly organized and that all of the provisions of the Internal Revenue Service laws are met.

The bylaws should clearly outline the method in which the cooperative will operate. Each charter member should thoroughly understand the bylaws before they are ratified.

The services of a professional accounting firm should be employeed prior to the sale of stock or the collection or handling of substantial amounts of money. Cooperative members are very sensitive to the proper accountability of their money.

Documentation of Feasibility of Cooperative And Preparation of Financial Documents

By this time, the proposed operation of the cooperative has been thoroughly researched and the organizing committee (now the temporary board of directors) has concluded that they want to implement or carry out their findings. Their next major hurdle is financing.

It would be easy to organize and finance most cooperatives if each member could be assessed his prorata share of the capital needs and he had the funds to buy the stock; then, it would not be necessary to borrow money.

Unfortunately, nearly every new cooperative must borrow money. In fact, the securing of outside capital is perhaps the most traumatic of all experiences in the organization and development of a new cooperative.

Many cooperatives are unprepared when they first approach the lender. The traditional lender will insist on the preparation of certain key documents before considering a loan request. The most requested documents are:

1. Projected volume of production (crops, livestock, seafood, et cetera).
2. Schedule of land, building, equipment, and operating capital needs.
3. Market information.
4. Cash flow of the business enterprise.
5. Operating statement.
6. Balance sheet.
7. Schedule of depreciation.
8. Schedule of debt service.
9. Loan package.

We will briefly discuss the importance and the preparation of each of these documents. The data used in the examples that follow were taken from an actual study. In this case, the financing was secured. Because all the examples are from one cooperative, the reader can follow the flow of data from one document to another.

Projected Volume of Production

Assuming a feasibility study is prepared, the survey questionnaire will be the source document for verifying the annual volume of production for each member. In instances where the volume of production varies during certain seasons or months of the year, it is particularly important to accurately document production to determine facility and equipment needs. This is sometimes referred to as a product flow. The facility and equipment should be sufficient to handle members' products without buying or building excess capacity (see sample questionnaire).

Schedule of Land, Building, Equipment, And Operating Capital Needs

Lenders are historically oriented toward collateral for securing their loans. From our experience, the typical lender is more likely to loan money for land, buildings, and equipment than for operating capital. There are, however, certain exceptions such as loans that may be secured by warehouse receipts for tobacco, cotton, and other products. Although the narrative portion of any study will outline in detail facility, equipment and operating capital needs, a condensed table graphically conveys to the lender what the cooperative needs to purchase, buy, or lease (see table 1).

Market Information

Lenders are unduly market conscious. They do not want to finance the production of something for which there is no market. The lender wants to know if market contacts have been made, if those contacts are interested in purchasing the cooperative's product(s), the price they are willing to pay, the volume desired, and where the markets are located. The lender wants to be assured that the cooperative has done its homework. Using the poultry cooperative marketing questionnaire as an example, please note the information the Cooperative Development Division of ESCS was seeking.

Cash Flow of the Business Enterprise

The projected cash flow of the cooperative is perhaps the most important of all documents to the prospective lender. The operating statement gives him a summary of what has happened in past years for established cooperatives and the pro forma operating statement gives him a picture of future operations, while the balance sheet gives him a financial picture at any particular instant. The projected cash flow gives the lender a continuous month-by-month income and expense prediction.

The key items in the final analysis are the net cash flow for the month and the accumulated cash flow. All lenders pay particular concern to the net cash flow. Does the cooperative have sufficient funds to operate and pay bills? Should more equity capital be injected into the operation? Will additional capital have to be borrowed, particularly for operation during heavy seasonal periods? Can controllable expenses be reduced during low income periods?

Table 1—Schedule of improvements and vehicle needs

Item			Cost
			Dollars
Hatchery			40,000
Feed mill			300,000
Processing plant			350,000
Vehicles			
Hatchery:			
Vans		(2)	15,873
Dump truck	used	(1)	2,500
Buses	used	(2)	5,000
Pickup truck	used	(1)	2,500
Total			25,873
Feed mill:			
Diesel tractors		(2)	42,484
Bulk trailers		(2)	53,328
10 wheel delivery		(1)	40,000
Cars		(3)	12,900
Pickup	used	(1)	2,500
Total			150,212
Processing plant:			
Vans	used	(2)	4,000
Pickups	used	(2)	5,000
Total			9,000
Procurement:			
Tractor trucks	used	(7)	70,000
Trailers	used	(15)	30,000
Total			100,000
Administration:			
Car		(1)	4,300
Total needs			979,385

We have included only the first year cash flow in table 2, but actually most lenders want a 3-year projection. Some lenders like to see a portion of the cooperative's income set aside as per unit retains and documented separately in the cash flow.

Operating Statement

A good set of financial records will tell the story of the cooperative's business. Accurate records are a must.

The operating statement provides an overall picture of the cooperative's business operations for a specific period of time, normally in 1-year intervals. It contains information on sources of gross income as well as expenses which the cooperative has incurred. The key figure in this financial statement is that which shows if any net margins for the specified period occurred.

Established cooperatives may prepare only one operating statement per year. However, in a new organization, the lender may want a quarterly or even a monthly statement. In any case, the purpose of the operating statement is to provide information to assist the board of directors in making major policy and management decisions. See table 3.

Balance Sheet

To determine the net worth of a cooperative, the accountant must compile a list of all assets of value which the cooperative owns and all items of value that individuals and business firms owe it. This combined list reveals the total value of the cooperative. Debts owed by the cooperative must also be listed. Then, by subtracting the total debts from the total value of all assets, you can obtain a figure that shows the current net worth of the association.

A formal presentation of these figures is called a balance sheet or a statement of assets, liabilities, and net worth. The primary objective of a balance sheet is to set forth in an orderly fashion the financial condition of a business at a particular date (see table 4).

For newly formed cooperatives seeking financing from outside sources, the development of a pro forma comparative balance sheet is extremely important. A pro forma balance sheet projects the future value of the association, indicating the solvency of the new venture as well as its ability to satisfy creditors' claims when due.

In developing a balance sheet, assets and liabilities should be arranged under certain general headings.

Care must be taken to reflect depreciation. An expense that comes with doing business, depreciation is limited to fixed assets only.

In summary, the balance sheet can be viewed as follows: **Assets - Liabilities= Equity**

Schedule of Depreciation

To assure the lender that depreciation has been properly accounted for, it is desirable to outline in table form the classes of assets, cost, life expectancy, and annual depreciation. A typical example is shown in table 5.

Table 2—Projected cash flow, first operating fiscal year

Cash flow item	4-week billing periods												
	1	2	3	4	5	6	7	8	9	10	11	12	13
	Dollars												
Capital outlay:													
Organizational startup	120,000	--	--	--	--	--	--	--	--	--	--	--	--
Inventories	262,734	--	--	--	--	--	--	--	--	--	--	--	--
Hatchery:													
Improvements	40,000	--	--	--	--	--	--	--	--	--	--	--	--
Eggs and hatching	69,503	138,284	194,786	194,786	194,786	194,786	194,786	194,786	194,786	194,786	194,786	194,786	194,786
Operating expenses	6,208	6,208	6,208	6,208	6,208	6,208	6,208	6,208	6,208	6,208			
Labor	16,549	16,549	16,549	16,549	16,549	16,549	16,549	16,549	16,549	16,549	16,549	16,549	16,549
Lease payment	--	--	--	--	--	--	--	--	5,916	--	--	2,578	859
Vehicles	25,873	--	--	--	--	--	--	--	--	--	--	--	--
Feedmill:													
Improvements	300,000	--	--	--	--	--	--	--	--	--	--	--	--
Production costs - feed	--	69,478	354,784	550,347	742,850	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788	1,116,788
Medication / vaccine	--	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960
Labor	11,144	11,144	11,144	11,144	11,144	11,144	11,144	11,144	13,317	13,317	11,144	11,144	11,144
Operating expenses	5,000	20,214	20,214	20,214	20,214	20,214	20,214	20,214	20,214	20,214	20,214	20,214	22,225
Contract	--	--	--	72,590	136,106	181,475	181,475	181,475	181,475	181,475	181,475	181,475	181,475
Lease	--	--	--	--	--	--	--	--	38,706	--	--	19,353	6,541
Vehicles	150,212	--	--	--	--	--	--	--	--	--	--	--	--
Processing:													
Improvements	350,000	--	--	--	--	--	--	--	--	--	--	--	--
Labor	--	--	--	73,603	138,006	184,009	184,009	184,009	184,009	184,009	184,009	184,009	184,009
Operating expenses	--	--	--	137,309	137,309	137,309	137,309	137,309	137,309	137,309	137,309	137,309	
Vehicles	9,000	--	--	--	--	--	--	--	--	--	--	--	--
Deduction by Champion	--	--	--	28,367	53,188	70,917	70,917	70,917	70,917	70,917	70,917	70,917	70,917
Procurement:													
Vehicles and live haul	153,731	1,231	1,231	13,121	19,354	25,088	25,088	25,088	25,088	25,088	25,088	25,088	25,088
Administration:													
Labor	17,225	17,225	17,225	17,225	17,225	17,225	17,225	17,225	17,225	17,225	17,225	17,225	17,225
Operating expenses	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904
Vehicle	4,300	--	--	--	--	--	--	--	--	--	--	--	--
Debt service	--	--	--	--	--	63,210	63,210	63,210	63,210	63,210	63,210	63,210	63,210
Total outlay	1,545,383	300,197	642,005	1,161,327	1,512,803	2,064,786	2,064,786	2,064,786	2,111,581	2,066,959	2,064,786	2,086,717	2,074,197

(Continued)

Table 2—Projected cash flow, first operating fiscal year (continued)

Cash flow item	4-week billing periods												
	1	2	3	4	5	6	7	8	9	10	11	12	13
	Dollars												
Cash received:													
Bank loan - organizational startup	120,000	--	--	--	--	--	--	--	--	--	--	--	--
Bank loan - working capital	1,270,022	--	--	--	--	--	--	--	--	--	--	--	--
Bank loan - improvements	690,000	--	--	--	--	--	--	--	--	--	--	--	--
Bank loan - labor	263,275	--	--	--	--	--	--	--	--	--	--	--	--
Bank loan - vehicles	289,385	--	--	--	--	--	--	--	--	--	--	--	--
Bank loan - inventories	262,734	--	--	--	--	--	--	--	--	--	--	--	--
Bank loan - live haul coops	52,500	--	--	--	--	--	--	--	--	--	--	--	--
Member equity capital	672,000	--	--	--	--	--	--	--	--	--	--	--	--
Sales	--	--	--	849,823	1,620,652	2,213,205	2,233,396	2,209,265	2,168,389	2,135,886	2,050,687	2,014,243	2,001,931
Offal recovery	--	--	--	19,699	36,936	49,248	49,248	49,248	49,248	49,248	49,248	49,248	49,248
Total cash received	3,619,916	--	--	869,522	1,657,588	2,262,453	2,282,644	2,258,513	2,217,637	2,185,134	2,099,935	2,063,491	2,051,179
Less: Total expenses	1,545,383	300,197	642,005	1,161,327	1,512,803	2,064,786	2,064,786	2,064,786	2,111,581	2,066,959	2,064,786	2,086,717	2,074,197
Cash flow (outflow)	2,074,533	(300,197)	(642,005)	(291,805)	144,785	197,667	217,858	193,727	106,056	118,175	35,149	(23,226)	(23,018)
Accumulated cash flow	2,074,533	1,774,336	1,132,331	840,526	985,311	1,182,978	1,400,836	1,594,563	1,700,619	1,818,794	1,853,943	1,830,717	1,807,699

Table 3—Pro forma statement of operations

Item	1977	1978	1979[1]
		Dollars	
Income:			
Broilers	19,497,477	27,623,695	27,623,695
Offal	450,619	640,224	640,224
Gross income	19,948,096	28,263,919	28,263,919
Less: Per unit retain	158,112	224,640	224,640
Gross margin	19,789,984	28,039,279	28,039,279
Expenses:			
Feed	9,869,120	14,725,724	14,725,724
Eggs and hatching	2,204,344	2,532,218	2,532,218
Grower payment	1,660,946	2,359,175	2,359,175
Salaries and wages	2,453,497	3,410,307	3,574,067
Operating expenses	1,735,876	2,299,824	2,300,693
Depreciation	153,537	153,537	153,537
Procerement	45,747	57,044	57,044
Lease	73,953	96,200	96,200
Interest	147,288	211,444	160,583
Startup capital	120,000	--	--
Champion deduction	648,891	921,921	921,921
Total expenses	19,113,199	26,767,394	26,881,162
Net earnings	676,785	1,271,885	1,158,117
Repayment ability:			
Capital retain	158,112	224,640	224,640
Net earnings	676,785	1,271,885	1,158,117
Total	834,897	1,496,525	1,382,757
Application of funds:			
Principal	358,392	420,379	319,119
Total	358,392	420,379	319,119
Net increase	1,193,289	1,916,904	1,701,876

[1] Plant capacity, broiler, broiler and offal sales, prices and per unit retains are held constant for 1979.

Table 4—Pro forma balance sheet

Item	1/1/77	1/1/78	1/1/79
		Dollars	
Current assets:			
Cash	3,619,916	1,807,699	3,036,105
Inventories			
Feed	--	223,558	223,558
Hatching	--	153,765	153,765
Plant	--	31,500	31,500
Live broilers	--	1,001,551	1,002,841
Total current assets	3,619,916	3,218,073	4,447,769
Fixed assets:			
Leasehold improvements	--	690,000	690,000
Vehicles & equipment	--	341,885	341,885
Less depreciation	--	153,537	307,07479
Total fixed assets	--	878,348	724,811
Total assets	3,619,916	4,096,421	5,172,580
Current liabilities:			
Accounts payable - growers	--	--	--
Operating notes - payable	263,888	266,802	165,542
Vehicle notes - payable	45,584	74,077	74,077
Facility notes - payable	48,920	79,500	79,500
Total	358,392	420,379	319,119
Long-term liabilities:			
Operating notes - payable	1,652,143	1,385,341	1,219,799
Vehicle notes - payable	243,801	169,724	95,653
Facilities notes - payable	693,580	614,080	534,587
Total	2,589,524	2,169,145	1,850,039
Stockholder equity:			
Capital stock	672,000	672,000	672,000
Per unit capital retains	--	158,112	382,752
Net earnings, undistributed	--	676,785	1,948,670
Total	672,000	1,506,897	3,003,422
Total liabilities & equity	3,619,916	4,096,421	5,172,580

Table 5—Proposed straight line depreciation schedule

Asset	Cost	Life	Percentage depreciation annually	Annual depreciation allowance
	Dollars	*Years*	*Percent*	*Dollars*
Land	--	--	--	--
Buildings and facility improvements	690,000	10	10	69,000
New vehicles	167,885	5	20	33,577
Used vehicles	121,500	3	33-1/3	40,460
Chicken coops	52,500	5	20	10,500
Total	1,031,885			153,537

Schedule of Debt Service

Since one of the major efforts of the cooperative is to convince the lender that his loan can be repaid, special effort should be made to highlight debt service. Most lenders want income 'earmarked' or set aside to assure payment. Debt service including principal and interest is shown in the cash flow. A table can be developed that clearly reflects debt payment. Please note in table 6 that data from the cash flow table were included as a specific line item.

Loan Package

The lender is a busy person; usually, he cannot take the time to assemble pieces of data for analysis. A summary loan package will save time and give him a better understanding of the financing needs. It should show the major items for which loans and member equity will be expended. Also, if a Federal guarantee is involved, it should be shown (see table 7). Information for the eight major documents we have discussed was extracted entirely from the projected cash flow data.

Table 6—Debt service

Loan purpose	Length of loan	Loan amount	Principal & interest 1st year	Principal & interest 2nd year
		Dollars		
Organizational startup	10	120,000	22,800	21,720
Working capital	10	1,270,022	241,803	230,349
Improvements	10	690,000	104,907	104,907
Labor	1	263,275	286,970	--
Vehicles (new)	5	167,885	48,686	45,665
Vehicles (used)	3	121,500	51,435	47,790
Inventories	10	262,734	49,919	47,554
Live haul coops	5	52,500	15,225	15,130

Table 7—Bank loan, FmHA guarantee, and member equity

Item	Total cost	Equity capital	Bank loan (with FmHA guarantee)
		Dollars	
Organizational startup	120,000	--	120,000
Leasehold improvements	690,000	--	690,000
Live haul equipment	52,500	--	52,500
Labor	263,275	--	263,275
Vehicles	289,385	--	289,385
Inventories (feed, packages, vaccine)	262,734	--	262,734
Operating capital	1,942,022	672,000	1,270,022
Total	3,619,916	672,000	2,947,916

Sources Of Financing

Forming a new cooperative usually creates a substantial financial problem. In many instances, this problem results from starting operations with a limited membership base and large capital requirements.

To avoid excluding those who could benefit most from a cooperative, membership equity should be assessed carefully. The cooperative may assess a member on the basis of his projected use of the cooperative. For example, a farmer who expects to market 20,000 bushels of produce through the cooperative would provide a greater amount of equity than one who markets only 5,000 bushels. As long as all members are allocated one vote each, this method of equity assessment is in line with cooperative principles. Such an arrangement, however, should not preclude a member from investing more than the minimum assessment.

Even when producers are assessed according to projected patronage, the task of financing a new cooperative with member equity alone is often impossible. In that case, an outside source for funds must be located. There are several possibilites: (1) selling stock; (2) borrowing from the Banks for Cooperatives, a part of the cooperative Farm Credit System; (3) borrowing from private banks; or (4) seeking financial assistance from local banks or Banks for Cooperatives with Federal guarantees or participating loans.

Sale of Stock

To help raise capital, a cooperative may sell stock in the association to members and nonmembers. This may be either common or preferred stock. If the common stock is tied to voting rights, the association may want to issue several types. For example, Class A stock could be designated as voting stock and limited to one share per member, while Class B stock could be non-voting stock and members could purchase shares based on their anticipated volume of business.

The best source of financing for a new cooperative is through the members themselves. The more stock it can sell to members the less the cooperative must borrow from normal lending sources.

If, for example, a cooperative needs $500,000 in capital and is able to sell 35 percent of the stock to members, that would raise $175,000, reducing the amount to be borrowed from outside sources to $325,000. On the assumption that there are 200 members and they are assessed on the basis of their participation or volume through the cooperative, members would invest an average of $825 each. Members may need to obtain individual loans through the local bank, the Production Credit Association, or Farmers Home Administration (FmHA) for stock purchases. Careful attention must be given to assure that the sale of stock conforms to all State and Federal laws.

Because cooperatives often need to broaden their base for raising equity capital, they may issue shares of preferred stock to outside investors as well as to members. Preferred stock is much more attractive than common stock because less risks are involved and it assures the payment of dividends to purchasers over holders of common stock. It is normally non-voting, interest-bearing stock. There are restrictions on the maximum percent of interest that can be paid to investors.

Members of the community in which the new cooperative is located should be encouraged to invest in the venture by purchasing shares of preferred stock. This is one way of getting more people in the community involved in the new cooperative venture.

Bank for Cooperatives

A major source of credit to cooperatives is the Bank for Cooperatives. There are 13 Banks for Cooperatives in the Farm Credit System.

Owned by the cooperatives that borrow from them, these Banks can make loans for many purposes, such as purchasing, testing, storage, packing, processing, distributing, or marketing of agricultural products. These may be either short, intermediate, or long-term loans, secured or unsecured depending on the borrower's credit standing.

Because these Banks serve only cooperatives, they tend to have a better understanding of this type of business organization and its functions, problems, and financial needs. Their guidance in sound loan servicing is a major asset.

However, because the Banks for Cooperatives are to a great extent lending money obtained from sales of bonds to the investing public through their fiscal agent in New York City, the Banks do require substantial equity capital investments by members of a new cooperative. Banks for cooperatives loans can be guaranteed by FmHA.

The other components of the Farm Credit Banks system are the local Production Credit Associations and their regional Federal Intermediate Credit Banks, and the Federal Land Bank Associations and their regional Federal Land Banks.

Commercial Banks

There are more than 14,000 commercial banks in the United States. Although they make a substantial percentage of loans to individual farmers, they loan a lesser percentage of capital borrowed by farmer cooperatives. Many new cooperatives obtain Federal guaranteees to obtain bank loans.

There are many advantages to securing financing from a local bank. The bank's executives are normally familiar with the local cooperative management as well as with the financial needs of the membership. They know that a successful cooperative can be an economic development tool for the whole community insofar as it will generate income and increase employment. Thus, in most instances, it is in the local banker's interest to finance a new cooperative.

Small local banks may not, because of banking law limitations, be able to provide the cooperative's total credit needs. In those instances, the local bank must secure assistance from a correspondent bank normally located in the larger metropolitan areas.

Financial Assistance from Local Banks With a FmHA or SBA Guarantee

In July 1972, Congress passed the Rural Development Act. One of the major segments of the law was to permit the Farmers Home Administration to guarantee loans for business and industrial purposes in rural areas or towns of 50,000 population or less. For the purposes of the law, cooperatives are included as business or industrial enterprises. Although the law also provides for insured loans, it essentially is a guarantee program. FmHA does not loan money. Loans are made by banks or other credit institutions approved by FmHA. FmHA can guarantee up to 90 percent of the loan.

The program works as follows: The borrower makes an application for a loan, usually to the local bank. The local bank considers the proposed loan bankable, it will apply to FmHA for a guarantee. The guarantee is between the bank and FmHA. The loan is made and serviced by the local bank.

In some instances, a large regional bank or investment corporation may make the loan and provide the loan servicing to meet FmHA requiremens. In other instances, the local bank may not have the lending capacity to make the loan. If this is the case, they may want to participate with a correspondent bank.

Sometimes, however, no local lender may be willing to participate in the loan. In those unusual circumstances, it is necessary to obtain financing from a bank outside of the community with a local bank servicing the loan. Investment companies are quite active in this type of arrangement.

The Small Business Administration, an independent Federal agency, can make loans, participate with other lenders, or guarantee loans to cooperatives. Their lending activity to cooperatives, however, has been very limited.

Presentation of Loan Application to Lender

It is most important that representatives of the cooperative make a positive impression on the potential lender at the initial meeting. Homework on member commitment, volume of production, and all of the essential documents outlined in this publication should reflect professionalism. The 'top team' should make the presentation. In complicated situations, the cooperative may want its attorney and accountant present. If a Federal guarantee or participation loan is involved, many additional documents will need to be prepared. It may be desirable to have representatives of the guarantor present at the initial meeting.

If a cooperative group is successful in obtaining financing, the cooperative has reached a plateau that will enable it to construct buildings, buy equipment, and operate the cooperative business organization. Lenders will normally spell out the conditions and purposes for which loan and member stock funds can be used. They may, for example, supervise construction and require that certain financial reserves be maintained, proper insurance coverage be obtained, and require periodic accounting to them on the progress of the business.

The major challenge to cooperative members, the board of directors, and management occurs when the business operation begins. To succeed, the members must produce a quality product that must be properly handled by the cooperative. Complete and accurate documentation of income and expenses, grower use, and many other responsibilities must be carried out.

In summary, your organization is now at the stage where this publication began—when we described the responsibilities of the members, the board of directors, the management, and the employees to successfully operate a cooperative. If the principles discussed in the first pages are learned well and practised effectively, the cooperative will become an established, thriving enterprise.

MARKET SURVEY QUESTIONNAIRE
(Of broiler distributors)

Date ____________

Name of Contact ____________

1. Name of firm ____
2. Address ____

   Telephone number (   ) __________________
3. Type of firm: Chain ___________, Wholesale distributor _____________
4. Proportion of your broiler pack from __________________ (name of state where co-op is located); percent _____ %
5. Type of *PACK*

	YES	*NO*	*PERCENT*
Ice pack	_______	_______	_______
Deep Chill	_______	_______	_______
Other Pack	_______	_______	_______
			100%
CONTENTS			
Whole	_______	_______	_______
Cut up	_______	_______	_______
Part	_______	_______	_______
			100%

6. Weight of whole bird preferred ____________ lbs.
7. Is there a trend toward more ice pack or deep chill pack in your market area for the next 5 years? Yes _____, No _______
8. Do you purchase USDA graded birds only? _____; plant grade only _____; both? _______
9. Is there a USDA reported price that is representative of market prices in your trade area? U.S. Grade A _____, Plant Grade _____, City ____________________
   a. Does any adjustment need to be made to that price? Yes _____, No _____, How many cents / pound _______
   b. Is there a price variation by state of origin? Yes _____, No _______
10. When is price established?
    a. Prior to shipment _______
    b. Upon receipt of shipment _______
    c. Other (explain) ______________________________
11. Time elapse between delivery and payment to processor supplies _______(days)
12. Do you receive trucklots _____, partial loads _______
13. Method of transport from processor:

		Percent of Volume
Common carrier	____________	____________
Processor's own truck	____________	____________
Your trucks	____________	____________
Other	____________	____________

PRODUCER SURVEY QUESTIONNAIRE

1. Name of producer ____

2. Post office address ____

3. My farm is located __________ miles __________ of ______________

4. Capacity of poultry houses (per flock) a. ________ b. ________ c. ________ d. ________ e. ________

5. Age of poultry houses a. ________ b. ________ c. ________ d. ________ e. ________

6. Number of flocks raised per year __________; yearly capacity __________

7. Name of processor you are presently producing for __________;

   address ____

8. Distance from your farm to processing plant __________; to feed mill __________

9. Estimated gross income (after deducting chicks, feed and medication costs) from processor during 1975 ______________, 1976 (through 6/30) ______________

10. Estimated net poultry income after all direct expenses were deducted (electric, gas, water, heat, fuel, litter, hired labor, etc.) in 1975 ______________, 1976 (through 6/30) ______________

11. Do you want to join and participate in a cooperative that would supply you with chicks, feed, and supplies under contract and process and market the broilers? Yes ______, No ______

12. If yes, are you willing to invest equity capital in the cooperative in proportion to poultry house capacity? Yes ______, No ______

13. What was the payment you received for the last flock sold (payment per thousand)? $______________

14. If common carrier is used, is payment F.O.B. ______ or point of delivery ______?

15. Major problems in handling processing broilers: Quality __________ Timeliness of

    delivery __________ Container __________

    Other (explain ____

16. Would you consider a broiler cooperative as a potential source for some of your broilers? Yes ______, No ______

COOPERATIVE PROGRAM

U.S. Department of Agriculture
Economics, Statistics, and Cooperatives Service

The Cooperative Program of ESCS provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The Program (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The Program publishes research and education materials and issues *Farmer Cooperatives*. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, or national origin.

*U. S. GOVERNMENT PRINTING OFFICE: 1979 280-931/ESCS-70